Past-paper walk-through

Monetary policy ▪ 4.3

eXercise

Questions in this set

- 0455/12 N25 Q19 ▪ 1 mark
- 0455/21 N25 Q3 ▪ 20 marks
- 0455/22 N25 Q4 ▪ 20 marks
- 0455/11 J25 Q15 ▪ 1 mark
- 0455/12 J25 Q20 ▪ 1 mark
- 0455/12 M25 Q29 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = “or words to that effect” – the wording need not match.

Question 19

0455/12 N25 ▪ Q19 ▪ 1 mark

19 Which policy measures would be classified as fiscal policy?

A changes in interest rates and money supply

B changes in labour market policies to encourage more training

C changes in tax rates and government spending

D changes in the exchange rate

Solution 19

Answer: **C**

Why

- Fiscal policy is the use of government spending and taxation.
- So changes in tax rates or in public spending are fiscal.
- Interest rates and the money supply are monetary; labour market reform is supply-side.

Question 3

0455/21 N25 ▪ Q3 ▪ 20 marks

3 Japan has faced significant periods of deflation in recent decades. Despite efforts to stimulate the economy through fiscal policy measures and monetary policy measures, economic growth remains low. Some economists have also argued that the monetary policy used by the central bank is one of the causes of low productivity in Japan.

(a) Identify two fiscal policy measures. [2]

(b) Explain two influences on productivity.

[4]

(c) Analyse reasons why central banks are important for an economy. [6]

(d) Discuss whether or not deflation is a problem for an economy. [8]

(a) (a) Identify two fiscal policy measures. [2] **[2]**

(b) (b) Explain two influences on productivity. [4] **[4]**

(c) (c) Analyse reasons why central banks are important for an economy. [6] **[6]**

Question 3

(d) (d) Discuss whether or not deflation is a problem for an economy. [8] **[8]**

Solution 3

(a) Mark scheme

- Identify two fiscal policy measures.
- ▪
- government spending 1
- ▪
- taxation 1
- 2 If more than two measures are given, consider the first
- three.
- Accept two types of spending, or two types of taxes.

Solution 3

- Allow contractionary (1) expansionary (1) measures.
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Solution 3

(b) Mark scheme

- Explain two influences on productivity.
- Logical explanation which might include the following.
- Quality of factors of production (1) better quality improves
- efficiency / poor quality reduces efficiency (1).
- Working conditions / wages (1) influencing worker motivation 1
- technology (1) machine speed / effects on capital
- productivity 1
- education (1) skilled workers / effects on labour productivity

Solution 3

- (1).
- Healthcare (1) healthier workers capable of producing higher
- output / sick workers take time off work (1).
- Effectiveness of institutions (1) amount of bureaucracy
- affects efficiency 1
- use of resources (1) whether wasted or used efficiently (1).
- 4 One mark each for two influences identified and one mark
- each for two explanations.
- If more than two influences are given, consider the first
- three.

Solution 3

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Solution 3

(c) Mark scheme

- Analyse reasons why central banks are important for an
- economy.
- Coherent analysis which might include:
- ▪
- control inflation (1) by implementing monetary policy 1
- such as changes in interest rates (1) prevent prices
- from rising too much (1) prevents deterioration of
- purchasing power / affordability of goods and services

Solution 3

- (1) prevent deflation 1
- ▪
- maintain financial stability (1) monitoring health of banks
- (1) preventing collapse of banks (1) assuring savings
- are protected (1) ensuring consumers have access to
- credit (1) ensuring liquidity of the economy 1
- ▪
- provision of economic information (1) which can help
- decision-makers 1
- ▪

Solution 3

- buying / selling currency (1) to influence exchange rates 1
- ▪
- lenders of last resort (1) providing liquidity to
- commercial banks (1).
- 6
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Solution 3

(d) Mark scheme

- Discuss whether or not deflation is a problem for an
- economy.
- In assessing each answer, use the table opposite.
- Why it might be a problem:
- ▪
- decreases confidence in the economy
- ▪
- deflationary cycle

Solution 3

- ▪
- loss of jobs
- ▪
- delays in spending reduce demand
- ▪
- lower profits for firms from lower prices.
- 8
- Level
- Description
- 3

Solution 3

- A reasoned discussion which
- accurately examines both sides of
- the economic argument, making use
- of economic information and clear
- and logical analysis to evaluate
- economic issues and situations. One
- side of the argument may have more
- depth than the other, but overall,
- both sides of the argument are
- considered and developed. There is

Solution 3

- thoughtful evaluation of economic
- concepts, terminology, information
- and/or data appropriate to the
- question. The discussion may also
- point out the possible uncertainties
- of alternative decisions and
- outcomes.
- 6–8
- 2
- A reasoned discussion which makes

Solution 3

- use of economic information and
- clear analysis to evaluate economic
- issues and situations. The answer
- may lack some depth and
- development may be one-sided.
- There is relevant use of economic
- concepts, terminology, information
- and data appropriate to the question.
- 3–5
- 0455/21

Solution 3

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- Guidance
- Why it might not be a problem:
- ▪
- decreases prices, increasing affordability for consumers
- ▪
- if it is caused by decreases in cost, problems for the
- economy are less significant
- ▪
- increase in international competitiveness

Solution 3

- ▪
- it depends on the extent and duration of the deflation.
- Level
- Description
- 1
- There is a simple attempt at using
- economic definitions and
- terminology. Some reference may be
- made to economic theory, with
- occasional understanding.

Solution 3

- 1–2
- 0
- A mark of zero should be awarded
- for no creditable content.
- 0
- Guidance

Question 4

0455/22 N25 ▪ Q4 ▪ 20 marks

4 There are several policy measures a central bank or government can use to reduce unemployment. One policy measure a government could use to reduce unemployment is to increase its spending on building houses. The Federal Reserve, the central bank of the US, has two main aims. One is to maintain price stability and the other is to achieve full employment. Some central banks also have economic growth as a target, but none have HDI value as a target.

(a) Identify two policy measures a central bank could use to maintain price stability. [2]

(b) Explain two benefits to an economy of full employment. [4]

(c) Analyse how an increase in government spending on building houses could reduce unemployment. [6]

(d) Discuss whether or not an increase in a country's economic growth rate will increase its HDI value. [8]

Question 4

(a) (a) Identify two policy measures a central bank could use to maintain price stability. [2] **[2]**
(b) (b) Explain two benefits to an economy of full employment. [4] **[4]**
(c) (c) Analyse how an increase in government spending on building houses could reduce unemployment. [6] **[6]**
(d) (d) Discuss whether or not an increase in a country's economic growth rate will increase its HDI value. [8] **[8]**

Solution 4

(a) Mark scheme

- Identify two policy measures a central bank could use to
- maintain price stability.
- Two from:
- the rate of interest (1) the money supply (1) the exchange
- rate (1) quantitative easing / tightening (1).
- 2 If more than two measures are given, consider the first
- three.

Solution 4

(b) Mark scheme

- Explain two benefits to an economy of full employment.
- Logical explanation which might include the following.
- ▪
- High output / GDP (1) maximum use of labour resource.
- ▪
- High tax revenue (1) government could spend on e.g.
- education / healthcare (1).
- ▪

Solution 4

- Low spending on state benefits (1) can keep taxes low /
- money saved can be spent on other things (1).
- ▪
- Low poverty / increase incomes (1) enable people to
- purchase basic necessities / which could increase living
- standards (1).
- 4 One mark each for two benefits identified and one mark
- each for two explanations.
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Solution 4

- Guidance

Solution 4

(c) Mark scheme

- Analyse how an increase in government spending on
- building houses could reduce unemployment.
- Coherent analysis which might include the following.
- An increase in government spending on building homes may
- increase demand for building workers (1) may increase
- demand for building materials (1) demand for building
- materials workers / other workers related to building industry
- (1) labour is a derived demand (1) reduce structural

Solution 4

- unemployment (1) increase incomes (1) increase consumer
- expenditure (1) increase total demand (1) reduce cyclical
- unemployment (1) increase GDP / economic growth 1
- may increase quality of homes (1) improve health (1) fewer
- workers may lose their jobs because of illness (1) increase
- labour productivity which may increase demand for labour
- (1) increase supply of houses (1) reduce price of houses 1
- improve mobility of labour (1).
- 6 Reward, but do not expect reference to multiplier / multiplier
- effects.

Solution 4

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- Guidance

Solution 4

(d) Mark scheme

- Discuss whether or not an increase in a country's
- economic growth rate will increase its HDI value.
- In assessing each answer, use the table opposite.
- Why it might:
- ▪
- increase in GDP may increase GDP per head if
- increase in GDP is greater than any rise in population
- ▪

Solution 4

- higher GDP per head may increase spending on good
- nutrition / good housing and as a result increase life
- expectancy
- ▪
- higher GDP per head may increase tax revenue,
- enabling a government to spend on education and
- healthcare
- ▪
- higher GDP per head may enable families to keep their
- children in education for longer.

Solution 4

- Why it might not:
- ▪
- higher GDP per head may result in more spending on
- demerit goods, lowering life expectancy
- ▪
- may lead to inflation hindering access to healthcare and
- education and increase inequality in the distribution of
- income
- ▪
- may be the result of higher military expenditure which

Solution 4

- will not increase HDI
- ▪
- income may become more unevenly distributed,
- meaning life expectancy and years of education of the
- poor may fall
- ▪
- more pollution may be created, lowering life expectancy
- ▪
- working hours and stress may increase, lowering life
- expectancy.

Solution 4

- 8
- Level
- Description
- 3
- A reasoned discussion which accurately
- examines both sides of the economic
- argument, making use of economic
- information and clear and logical
- analysis to evaluate economic issues
- and situations. One side of the

Solution 4

- argument may have more depth than
- the other, but overall, both sides of the
- argument are considered and
- developed. There is thoughtful
- evaluation of economic concepts,
- terminology, information and/or data
- appropriate to the question. The
- discussion may also point out the
- possible uncertainties of alternative
- decisions and outcomes.

Solution 4

- 6–8
- 2
- A reasoned discussion which makes
- use of economic information and clear
- analysis to evaluate economic issues
- and situations. The answer may lack
- some depth and development may be
- one-sided. There is relevant use of
- economic concepts, terminology,
- information and data appropriate to the

Solution 4

- question.
- 3–5
- 0455/22
- October/November 2025
- Guidance
- Level
- Description
- 1
- There is a simple attempt at using
- economic definitions and terminology.

Solution 4

- Some reference may be made to
- economic theory, with occasional
- understanding.
- 1–2
- 0
- A mark of zero should be awarded for
- no creditable content.
- 0
- Guidance

Question 15

0455/11 J25 ▪ Q15 ▪ 1 mark

15 A firm chooses to become more capital-intensive.

What is **least** likely to have increased?

A interest rates

B minimum wages

C the power of trade unions

Question 15

D the productivity of capital

Solution 15

Answer: **A**

Why

- Capital-intensive means using relatively more machinery and less labour.
- A firm switches that way when labour becomes relatively more expensive.
- So higher wages or stronger unions would push it; higher *interest rates* would make capital dearer and push the other way.

Question 20

0455/12 J25 ▪ Q20 ▪ 1 mark

20 When a government aims to encourage economic growth, it may adopt supply-side policies.

Which policy is a supply-side policy?

A increasing the money supply

B lowering interest rates

C reducing indirect taxation

D retraining unemployed workers

Solution 20

Answer: **D**

Why

- Supply-side policy raises the economy's productive capacity.
- Education, training, infrastructure and lower business taxes all do that.
- Increasing the money supply is monetary policy, which works on demand.

Question 29

0455/12 M25 ▪ Q29 ▪ 1 mark

29 What might a central bank do to stop a fall in the value of its country's currency?

A raise interest rates

B reduce taxes on imports

C remove controls on currency outflows

D sell their currency on the foreign exchange market

Solution 29

Answer: **A**

Why

- To stop a currency falling, the central bank must raise the demand for it.
- Higher interest rates attract foreign deposits, so demand for the currency rises.
- It can also buy its own currency using foreign reserves.